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# Moody's warns on eurozone debt

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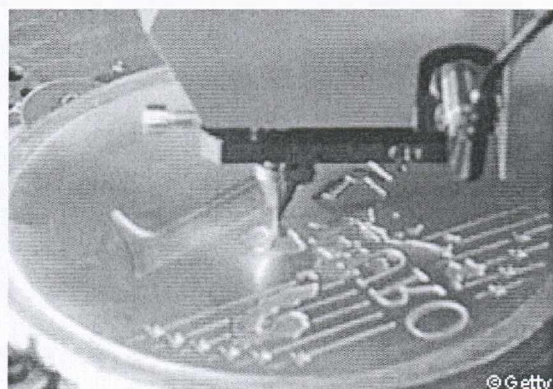

The eurozone crisis is threatening to engulf all the region's governments as their ability to raise capital in the markets is increasingly in doubt, according to Moody's, the US rating agency.

The agency fears that policymakers will not be able to move swiftly enough to stem the deepening crisis ahead of a series of key bond auctions that will test investor sentiment and put the European Central Bank under greater pressure to intervene.

Italian bond yields, which have an inverse relationship with prices, remained above 7 per cent – a level considered unsustainable by markets – amid continuing worries that Rome may be forced to follow Greece, Ireland and Portugal into accepting bail-out loans.

The eurozone government bond market stages more auctions on Tuesday with Italy looking to raise up to €8bn in bonds. Spain and France plan to issue bonds on Thursday.

"Without the support of the European Central Bank, these markets would already be broken and in need of a bail-out," said one trader.

Indeed, on Monday, the ECB said it had bought another €8.6bn in eurozone government bonds last week, pushing the amount it has purchased above €200bn.

Moody's said the probability of sovereign defaults is "no longer negligible" and a series of defaults would significantly increase the likelihood of countries leaving the eurozone.

While Moody's central scenario remains that the single currency bloc will be preserved without widespread defaults, the agency warned that any country requiring support for a sustained period was likely to be downgraded to speculative, or "junk" status.

Market participants said this was a warning to Italy.

The agency added that a "series of shocks" may be uncomfortably close because of the large amount of eurozone government bond supply in the next few days, starting with Italy on Tuesday.

Belgium and Italy issued bonds on Monday at extremely high yields that suggest these two countries are on an unsustainable debt path.

Belgium sold just under €2bn in bonds with a 10-year issue pricing at yields of 5.66 per cent. Italy sold €567m of inflation-linked bonds to mature in 2023 at a real yield (after inflation is taken into account) of 7.3 per cent. Italy also had to scale back the size of the offering from €750m.

However, despite the Moody's report and the gloom surrounding the eurozone, yields of Italy, Belgium and Spain fell. These countries are considered most likely to be the next into the emergency unit.

Market participants said the falling yields were in part because of ECB intervention and also because the Moody's warnings had been priced in after last week's turbulence – in particular, a poorly received German bond auction.

In terms of the policy framework, the eurozone was approaching a junction, leading either to closer integration or greater fragmentation, Moody's concluded.

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